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FOREIGN SERVICE DESPATCH

FROM : American Embassy, Tripoli

TO : THE DEPARTMENT OF STATE, WASHINGTON.

DATE February 17, 1955

REF : Embtel 349, February 12, 1955

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SUBJECT: The Libyan-American Reconstruction Commission and the Tripoli Power Plant

A preliminary meeting was held on February 10, between members of the Embassy and USOM/L staffs and the Government of Libya (GOL) Minister of Finance, Dr. Ali ANEIZI, and his adviser, Mr. C. PITT-HARDACRE, for the purpose of discussing the agenda for the first formal meeting of the Libyan-American Reconstruction Commission (Joint Economic Commission). In the course of discussing possible development projects, it was revealed that the Prime Minister of Libya and the Minister of Finance had apparently committed themselves to the Libyan Council of Ministers to finance governmental purchase of the Tripoli electric-power plant, now owned by an Italian firm, by using American economic aid funds.

Feeling that this was a fundamental violation of the agreed principle that a joint Libyan-American Commission should approve projects only after adequate consideration, the Ambassador obtained an appointment with the Prime Minister and the Minister of Finance and submitted the enclosed aide memoire (Enclosure No. 1).

In answer, the Prime Minister asserted that he agreed entirely with the above-stated principle and that no actual commitment had been made. He had merely mentioned the power plant as an illustration of how the American aid funds might be used.

In further discussion of the power plant project, it was explained by the Ambassador that the American Congress and Executive branch of the United States Government would undoubtedly react adversely to GOL's buying out private capital investment with American aid funds, particularly in view of the fact that the Administration was very much interested in exploring ways and means of increasing the flow of private investment abroad as a means of helping underdeveloped countries. It was agreed that the Embassy, USOM/L, and GOL should explore all other possibilities of financing an adequate power plant.

In spite of the Prime Minister's denial of a commitment, it is apparent that there is strong pressure in GOL to finance the power plant from aid funds, either by a loan or with the money already available. Such pressure may possibly arise from Cyrenaican resistance to putting such a large item, solely of benefit to Tripolitania, in the Libyan Federal budget. Mr. Pitt-Hardacre stated in the February 10 meeting that the actual purchase of the power plant

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could be taken care of from strictly Libyan funds but was overruled by Dr. Aneizi.

Subsequent to the Ambassador's delivery of the aide memoire, Mr. Pitt-Hardacre again proposed to a member of the Embassy staff a method of utilizing American aid funds to take over the plant. He was told that the Embassy was awaiting Washington's reaction on the subject and preferred to defer further conversations until the Department's views had been received. Mr. Pitt-Hardacre has mentioned several times the recent U. S. loan to Pakistan for electric power development, which he asserts is being or will be used in part to take over private interests. Confirmation of this would be appreciated.

Bringing the power plant under government ownership is one of GOL's most cherished projects. The rates now charged by SECI (Societa Elettrica Commerciale Industriale), the Italian firm which owns the plant, are among the highest in the world, partly because of the costs inherent in the use of obsolete and inefficient equipment and partly, it is believed, because of excessive profit taking. SECI has refused to consider part ownership and management of the plant and insists either on maintaining the status quo or selling out. The company has drafted plans for modernization and extension of the plant, but it is doubtful whether it will be able or willing to make these improvements at a rate adequate to keep pace with the increasing demand for electric power or that significantly lower rates would result from such improvements.

GOL desires cheap electricity for farmers and consequently wants the plant brought under government ownership without necessity for the inclusion of large amortization and interest charges in the rates. They would prefer to purchase and modernize the plant with aid funds but as an alternative would like a long-term interest-free loan of the Pakistan type. Total cost is likely to run to $9 million or more.

It was the opinion of a disinterested observer, a Chicago public securities broker and Department of Commerce consultant, recently in Tripoli, that no U. S. firm would be interested in investing in a public utilities plant in this area.

For the Ambassador:

David G. Nes
First Secretary of Embassy

cc: Benghazi

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AIDE MEMOIRE

American Ambassador desired to call to the attention of the Prime Minister and the Minister of Finance a report which he had received from the members of his staff who had attended an organizational meeting preliminary to the first official meeting of the Libyan-American Reconstruction and Development Commission, scheduled to be held on February 12, 1955. This report was to the effect that a large portion of the American economic assistance funds expected to be available to the Commission for allocation was to be programmed for the Tripoli Power Plant. It had further been reported to the Ambassador that the Prime Minister had already committed himself to the Council of Ministers to the effect that such an allocation of funds would be made by the Commission.

The Ambassador felt it his duty to inquire directly of the Prime Minister and the Minister of Finance regarding the above report, since he felt an important matter of principle was involved. It was the Ambassador's understanding, and he felt sure that it was the understanding of the Prime Minister and the Minister of Finance as well, that the Joint Commission was not intended to function merely as a body which approved and executed projects on which firm and final decisions had already been made outside the Commission. To the contrary, the Ambassador had understood that the function of the Commission would be to make careful and thorough investigations of all projects submitted to it, in order to ensure that these funds would be used in the best long-range economic interests of Libya. Such careful study and consideration would, in addition, provide a basis on which the Executive Branch of the Government of the United States could account to the Legislative Branch for economic progress achieved under the programme of assistance.

The Ambassador felt certain that the Prime Minister and the Minister of Finance would agree that this interpretation of the functions of the Commission was correct and that any allocation of funds to specific projects should be made only after the most careful consideration by the Commission.

In conclusion the Ambassador stated that he had sought a meeting with the Prime Minister and the Minister of Finance prior to the first formal meeting of the Commission in order to obtain confirmation of his understanding of this important principle involving its authority and functions.

Tripoli, Libya,

February 11, 1955.

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